Fostering a Financial System That Promotes Growth and Serves Consumers

Tenth Annual Capital Markets Summit

Remarks by
THOMAS J. DONOHUE
President and CEO, U.S. Chamber of Commerce

Washington, D.C.
March 16, 2016

Introduction

Thank you very much and good morning, ladies and gentlemen.

This is our tenth annual summit—and a good time to take stock of where we've been and where we're going. That's what we've been doing at the Chamber. We recently took stock of our entire agenda. We follow some 300 issues—and we'll continue to do so. But in this critical and unpredictable year, we had to make some hard choices about where we're going to put most of our chips.

We settled on six priorities for 2016. Very simply, we're going to fight the administration's regulatory onslaught in its last year in office that threatens to seriously undermine our recovery.

We're going defend financial institutions and our capital markets from destructive attacks from members of both parties, the media, and social activists. This will obviously be a major focus of my remarks today …

We're going to work to expand our trade all over the world to create good American jobs here at home.

We're going to fight for the expansion of American energy of all kinds to bolster our economy, create jobs, and generate billions of dollars to help pay for the entitlement costs of an aging population.

We're going all-in on politics to ensure pro-business majorities in the House and Senate.

And we're going to defend the American business community from the most serious political and ideological assault we have seen in decades—and remind Americans that it's government, not the business community, that has fallen down on the job and must be reformed.

So you can see that supporting strong capital markets and smart regulation—and answering the false attacks of our critics—will be a major focus of our 2016 agenda.

So let's talk about those capital markets—what they are, what they do, and how they should operate. When we talk about capital markets, we are talking about banks, stock exchanges, bond markets, mutual funds, angel investors, venture capital, private equity, consumer financial products—any form of financing a business needs to grow and operate.

From the entrepreneur who is applying for a home equity loan, to an emerging growth company that is going to issue an IPO, to a multinational company seeking to execute a letter of credit for a trade deal—each relies on efficient capital markets.

We can all agree that our financial services industry—made up of small and large banks, institutional investors, broker-dealers and many others—provides the fuel for our engine of economic growth.

We can agree that we need well-regulated markets to provide certainty for business to raise capital and investors to provide it.

And we need a stable financial system based on rational risk taking.

If we get the policies right, then our capital markets are poised to provide capital to startups and businesses and to serve consumers. They are poised to provide a tremendous boost to jobs, growth, and opportunity.

The ability to get capital into the hands of the doers and dreamers and strivers—and existing businesses and consumers—has been key to America's economic strength since our founding.

The most profound event to occur in the ten years we've been holding these summits was undoubtedly the financial crisis. It's worth pointing out that the Chamber and its Center for Capital Markets Competitiveness had been calling for regulatory reform years before the crisis hit. We created CCMC in 2007 because our regulatory system, which dates back to the Civil War and New Deal, was no longer able to properly regulate a dynamic 21st century economy.

After the financial crisis hit, were these issues addressed?

No. Instead, policy makers ditched a much needed modernization in favor of building a bigger system built on a creaky foundation.

The Current Environment

Let's flash forward to today. Take a look at the environment we're operating in.

Financial regulation is only getting worse. We're stuck in the weakest economic recovery since the Great Depression … and the future isn't looking much brighter. More than ever, we need the economic shot in the arm that smartly regulated capital markets can provide.

Today, many legislators, policymakers, and regulators, regardless of party or ideology, see our financial services providers as a problem to be solved, limited, and controlled—and not a key ingredient to boosting the economy.

Today, financial institutions have become a favorite punching bag on the campaign trail and on the Hill. It seems like the financial services industry has been blamed for everything from income inequality to the common cold.

The industry is far from perfect, but much of today's rhetoric is ill-informed or just plain wrong—and almost always ignores the significant role government played in partially causing the financial crisis.

Some critics might hold their views sincerely, while many use the issue to score political points. That might make good politics, but it's not good policy—and it's definitely not good for our economy. More on this topic in a moment.

We've addressed a lot of questions at these summits over the years, but today there's really only one question facing the business community, financial institutions, candidates, and policymakers: What kind of an economy does this country want to have going forward? Do we want to continue with the current slow-motion recovery of low growth, low wages, and fewer opportunities?

Or do we want an economy that can achieve its growth potential—attracting investment, encouraging entrepreneurship, spurring innovation, and spreading opportunity through job creation?

How we treat our capital markets is a key factor in determining which of those paths we'll take.

Course Correction Needed

One thing is clear—if we don't make a course correction, we will be tethered to the abysmal rate of growth that is holding back our country, businesses, and consumers.

Today, our financial institutions are in a no-win regulatory, business, legal, and political environment. Too often they are told to lend, but also sock away more capital. They are asked to plan for a doomsday scenario, but aren't allowed to manage cash for a business.

Increasingly, "political risk" and "regulatory risk" are replacing "credit risk" as a driver of what services banks and other financial intermediaries are able to provide. In too many instances, rules are designed to cover regulators' backs and not to promote a well regulated market.

As a result, financial service providers are afraid to launch new products because they are out of regulatory favor, or they stop offering existing products because compliance becomes too cumbersome or costly.

The cost of financing is rising.

And it's all being perpetuated by an attitude that the government needs to tinker with the system endlessly—while the private sector sits back and wonders what will hit them next.

This approach has delivered all the efficiency and effectiveness one might expect from the government—regulators with overlapping jurisdictions, duplicative and sometimes contradictory rules, and mass confusion.

We're going to end up making the system so safe that it can't be used. And if it can't be used, it can't propel the economy forward. It's pretty simple: No risk means no growth, no jobs, and no opportunity.

This is not the system we need, and the American people should not stand for it.

A System That Can Spur Growth

So what kind of financial regulatory system *will* spur growth—here at home and in a global economy? A system in which the regulators understand the role capital markets play in our economy, in business operations, and in consumers' lives—and act accordingly.

This is not about less or more regulation. We simply want smart regulation.

What's smart? Smart is when regulators understand the markets they are regulating, support innovation and traditional banking, and recognize the need to resolve conflicts and turf battles.

Smart is when regulators stop to consider the most cost effective way to solve a problem *before* they propose a new rule. Smart looks back at regulations to fix unforeseen consequences and get rid of obsolete regulations.

In a smart system, regulators would have clearly defined responsibilities, enforce the rules impartially and consistently, be held accountable, and coordinate well with other agencies.

They would focus on rooting out the bad actors. And they would ensure that honest market participants know the rules of the road and have a level playing field.

A smart system would power entrepreneurship, enhance innovation, and leave room for reasonable risk.

It would support the robust array of providers I mentioned earlier. Those providers would be able to offer diverse products and services to meet the needs of business and consumers.

For companies, that means access to short- and long-term capital, liquidity, and even derivatives. They've got to have it all to make ends meet, manage risk, make investments, hire workers, and provide retirement products to employees.

For consumers, it means access to credit to help with unplanned expenses, loans to buy cars and homes, financing for education, and advice to plan for their futures.

A system that meets those standards will power growth in our economy and lift everyone up.

Key Areas of Focus

So what do we need to do to get the kind of capital markets we need to boost growth and get financing to businesses of all sizes?

Defending Our Financial System

The Chamber's most urgent priority is defending America's financial institutions and our capital markets from destructive attacks now being levied by members of both political parties, regulators and prosecutors, social activists, and the news media.

If we're to believe some of the rhetoric on Capitol Hill and on the campaign trail, our capital markets are little more than a system of tricks and traps. To hear them tell it, banks and financial service providers are bad actors that need to be shut down, broken up, or regulated into submission.

But to lay all the ills of the economy at the doorstep of our financial industry is not only fundamentally wrong, it's downright dangerous and stupid.

I'll tell you what else is dangerous and stupid—the idea that anyone with experience in the financial services industry should be disqualified from serving in government. That's ridiculous.

We can never forget that our capital markets—the best in the world—are the ladder by which we all have the ability to achieve the American Dream. We should recognize these markets as a source of strength and make them stronger—not try to blow them up.

This year the Chamber will lead a major effort to defend financial institutions against these reckless and unfair attacks. With facts and passion, we're going to underscore the tremendously positive role our capital markets play in growth, jobs, individual opportunity, and economic security. We're going to expose those who are beating up on the system to score political points.

Recently, we have seen some politicians trying to intimidate regulators into ignoring the business community. One example is a letter sent by a senator to the Federal Reserve telling them not to listen to the concerns of business. That's outrageous—and violates the Administrative Procedure Act.

We're going to fight these attacks on business's right to participate in the process and exercise our right to free speech. Elizabeth Warren and her allies want to have a one-sided conversation with the American people on these issues. We're not going to let that happen.

We're also going to combat regulatory overreach, fight punitive taxes, and stop enforcement practices that are little more than extortion.

Let me mention a few specifics.

Reforming the Regulators: The Federal Reserve

First, the Chamber is going to continue to push for wide-ranging reforms to our regulatory system.

We've already made proposals to reform the SEC to make it a better managed and effective agency. We've released a plan to reform the Federal Stability Oversight Council to make it more transparent. And we've proposed changes for Self Regulatory Organizations to make them more accountable and increase due process in legal proceedings. Some of our suggestions have been acted on and others ignored—for now.

In the very near future, the Chamber is going to release an action plan to reform the Federal Reserve in its role as a regulator to make it a more transparent and accountable regulatory agency.

Let me be clear about one thing at the onset. The Chamber has and will continue to help fiercely defend the Federal Reserve's independence on monetary policy. We will continue to oppose legislation whose designed purpose or unintended result would be to undermine that independence. An independent Fed is necessary to develop stable monetary policy, devoid of political interference, in order for markets to operate efficiently and spur economic growth.

But the Federal Reserve as a broad-based financial regulator is a different story.

The Federal Reserve has been charged with new sweeping powers and work streams under Dodd-Frank, Basel III, and the G-20 mandates. Its growing powers demand greater scrutiny.

The Federal Reserve, unlike other agencies, does not publish an economic analysis for notice and comment when drafting rules. That needs to change.

In the past year, GE has dramatically restructured its operations to avoid being designated as a systemically important financial institution, which would have exposed its core manufacturing business to bank-style capital rules.

Insurers face a similar threat of having bank-like rules applied that don't fit their business model. Met Life had the courage to ask the courts to force the Financial Stability Oversight Board to explain why the company was designated a SIFI and how it can get the designation reversed.

The Fed should have to abide by the same basic principles as other regulators—transparency, accountability, and due process in writing rules. It needs to write rules that fit the business model of the firm it will regulate.

As we have with other agencies, the Chamber will propose and support changes that will help make the Fed a more transparent and accountable regulator.

Stay tuned—more to come very soon.

2016 Agenda

In addition to issues involving the Fed, we have important matters before Congress and the administration.

One critical issue is fixing the Department of Labor's proposed Fiduciary Duty rule. DOL must modify the rule to ensure small businesses can access all types of investment products and services. If they don't get the rule right, up to 9 million small business owners could stop providing retirement benefits to their employees.

Also on our agenda is stopping the Consumer Financial Protection Bureau's efforts to eliminate pre-dispute arbitration clauses, which cut down on unnecessary litigation and lawyers' fees.

For its part, Congress should pass more legislation like the Jobs Act, to help American businesses get the private and public capital they need.

The SEC should continue its work to eliminate conflict of interests in proxy advisory firms. It can start by having ISS and Glass Lewis disclose when paying clients—many of whom are unions—are pushing shareholder proposals or director slates.

And FSOC should create designation off-ramps for those being targeted as systemically important financial institutions. It should provide companies an opportunity to "de-risk" before they are deemed to be a systemic problem.

Congress and banking regulators need to reassess policies that harm the capital flow to Wall Street including the BASEL III total loss-absorbing capacity proposal and the Dodd-Frank thresholds that impact regional and mid-size banks.

Promoting Growth

As we advance our agenda, the Chamber is going to ensure that the government focuses on economic growth, not just financial stability.

Businesses need the resources to grow and expand—and our country needs a dynamic private sector if it's ever going to pull itself out of the mud of this lackluster recovery. They can't do it without a smartly regulated financial regulatory system.

If government and its financial regulators can't seem to keep their eye on the ball when it comes to growth, we're going to be here to remind them.

Conclusion

The bottom line is we can't keep adding new regulations on top of existing ones, without ever repealing those that don't work or have outlived their usefulness.

We can't sustain a system of duplicative, contradictory, and ever-expanding rules—the system will eventually collapse of its own weight.

We can't let attacks against the financial services industry and the American business community go unanswered.

Regardless of party—regardless of the office you hold or the office you are seeking—if you attack business and the core industries that keep our economy going, you are going to hear from us. You'll hear from us in the media. You'll hear from us in politics. You'll hear from the entire Chamber federation and our grassroots network.

There's no more free ride. No more chalking it up to "just election year politics." We're not going to just let you have your way. We're going to be in the agencies, in the Congress, and sometimes in the courts to stand up for common sense and due process. And, we're going right into the states and congressional districts and before the media to tell citizens what you are doing and why you are doing it—to score cheap political points, while jeopardizing their jobs, their livelihoods, and their ability to plan and invest for the future.

Because when politicians attack our capital markets, they are really attacking the very foundation on which a growing and prosperous economy is built. They are attacking free enterprise and our economic freedoms. They are attacking our country's ability to innovate, expand, and lead the world.

And so I urge all of you to join and support this effort. This is a difficult and extraordinary year—economically, politically, and geopolitically. The business community is being challenged and we are being tested. We can't afford to sit on our hands. We must up the ante and engage this fight with all the facts, energy, imagination, and passion we have. And we must do it together.

Thank you very much.

# # #